REMARKS/ARGUMENTS

By this paper, Applicant responds to the supplemental Office Action of April 20, 2006, which is a partial completion of the incomplete Action of October 20, 2005, and respectfully requests reconsideration of the application.

Claims 1-118 are now pending, a total of 118 claims. Of the claims not allowed, only claim 56 is independent. As noted below, even as supplemented, the Office Action is too incomplete to raise any rejection of any claim.

The claims as pending are allowable: the Examiner has misinterpreted the reference. Final rejection is premature, as discussed in § VI. Finality should be withdrawn, and the Conditional Supplemental Amendment filed herewith should be entered.

I. Telephone Interview During Week of July 10, 2006

Applicant thanks Examiner Chencinski for a telephone interview conducted in several segments during the week of July 10, 2006.

No agreements were reached. However, the Examiner indicated new portions of the Little reference that were relied upon.

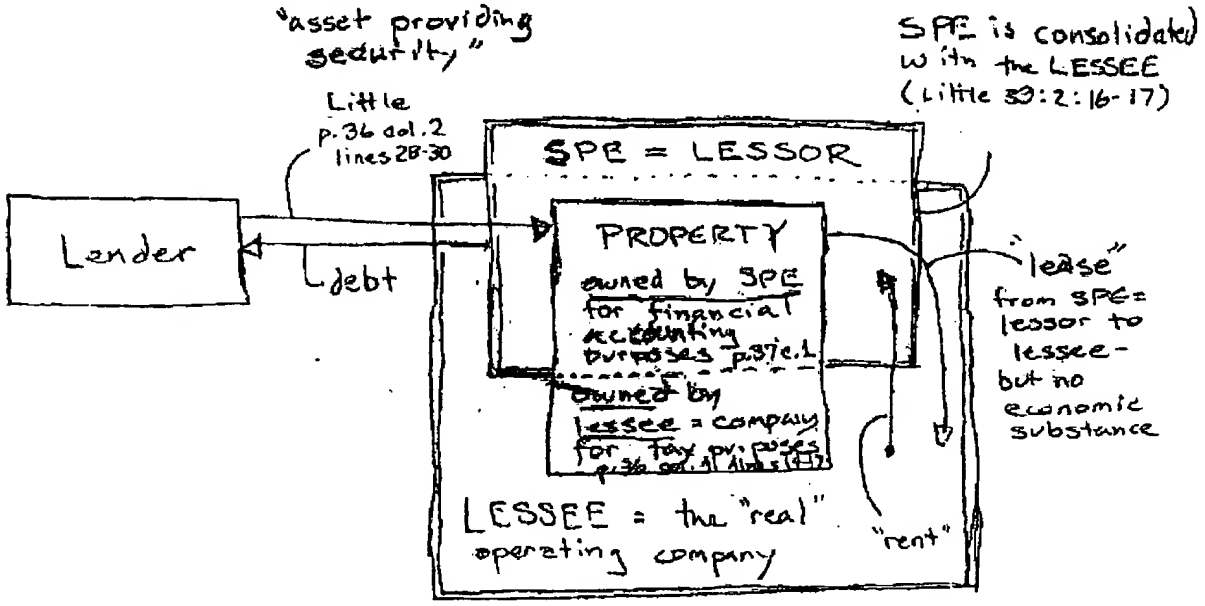
Because the Examiner has now articulated some of the positions on which previous papers were silent, Applicant is able to make showings on the merits, see § III.A and III.B.1, which was impossible before.

II. The Little Reference and Synthetic Leases

The Little reference describes "synthetic lease" structures, which were used through the 1990's until 2003 to allow property to be "**owned**" by a company for tax purposes – thereby providing certain tax advantages – while being **not** "**owned, only "leased**" for financial accounting purposes – which has certain effects on a companies balance sheet, depreciation offsets to earnings, and the like, that are advantageous for financial accounting reasons.

In a synthetic lease, a company that is about to buy an asset – typically real estate – first forms a "special purpose entity" (SPE) as a subsidiary that will own the asset. The SPE borrows money from a lender, and purchases the asset. The SPE then "leases" the asset to the company.

But it is not a "true lease" with economic substance – because the SPE is a subsidiary of the company, the lease is purely an internal accounting "gimmick."



This diagram shows the ownership relationships for most of the embodiments discussed in the Little article. The SPE is **one and the same** entity as the **lessor/landlord**. The SPE is carefully structured so that it can be treated as a **separate entity** from the operating company **under financial accounting rules**, and yet still be **consolidated with** the operating company **under tax accounting rules**. Importantly, the SPE must be **owned by the tenant** – the tax advantages of a synthetic lease are not available unless the SPE can be consolidated with the **tenant**. The "property" is shown as owned by the SPE/lessor under financial accounting rules, and by the operating company/lessee for tax purposes. The SPE/lessor is owned by the operating company/lessee (often the lender also has an ownership interest). The lease rents are shown as flowing from one part of the operating company to another.

Under **financial accounting rules**, the transaction is booked as if it were an operating lease between arm's length entities. The asset is recorded as an asset on the balance sheet of the special purpose entity, and off the balance sheet of the lessee / operating company. Thus, depreciation of the asset need not be deducted in the company's earnings calculation. Instead,

the lease payments are recorded as an expense on the income statement. The asset is off the balance sheet of the operating company, and thus the denominator of "return on equity" ratio is smaller – leading to improved apparent performance.

However, for tax purposes, the SPE is **consolidated** with the operating company. That is, the two are treated as a single entity for tax accounting purposes – the SPE and its assets are owned by the "lessee." Because there is only one entity for tax purposes, there is no "lease" at all. Rather, there is only an asset, and depreciation deductions, generally on an accelerated depreciation schedule, which is a tax benefit to the operating company.

There are other embodiments shown in Little, and they will be discussed below.

III. Claim 56

The Office Action, at ¶ 2, compares parts of claim 56 – but not the entire claim – to the Little article in combination with the Weatherly article. Claim 56 recites as follows:

> 56. A method, comprising the steps of:
>
> leasing an interest in real estate from a special purpose entity to a tenant, **the special purpose entity being a legal entity owned by a landlord** of the real estate that includes the leased interest, the special purpose entity owning the lease of the leased interest, development of an asset underlying the leased interest being financed by debt issued by the special purpose entity, the debt being **non-recourse against** the special purpose entity, the landlord and **the asset**;
>
> wherein at least some portion of originating, managing, or analyzing the lease is performed on a computer.

The Office Action is simply silent on the "non-recourse" limitation, and misquotes the Little reference with respect to the "owned by" limitation. In the interview, the examiner changed positions, and explained new views of these two limitations.

A. The Claim Language "the special purpose entity being a legal entity owned by a landlord" Distinguishes The Art

Claim 56 recites a "special purpose entity being a legal entity owned by a landlord." Neither the Office Action nor the interview draws any correct correlation between this claim limitation and any reference.[1]

1. When Little Teaches an SPE, that SPE is Not "Owned By the Landlord"

Importantly, in a typical synthetic lease (for example, in all instances discussed in the portions of Little noted in the Office Action), there are only two legal entities – a landlord (or "lessor") and a tenant (or "lessee"), or a lessor and lessee but no SPE, where claim 56 requires three. When Little has an SPE at all, it is one and the same entity with the "landlord" and the "lessor." The SPE **cannot** be a "legal entity **owned by a landlord**" as recited in claim 56: if it were, it would be impossible to structure the SPE to be **consolidated** with the **lessee** for tax purposes, and the tax advantages would not be available.

Little states several times that Little's special purpose entity is owned by the **lessee/ tenant** and/or the **lender**, not by the **landlord** ("lessee" is the same as "tenant," "lessor" is the same as "landlord"). Little's SPE cannot possibly be a "legal entity **owned by the landlord**:" Little repeats over and over that the SPE and the landlord/lessor **are one and the same entity**. Little p. 42, col. 1, lines 4-8 (using a special purpose entity ... as the **lessor**); Little p. 42, col. 1, lines 24 to col. 2, line 9 ("Sometimes a special purpose entity ... **is formed to act as the lessor**. ... the entity **acting as the lessor** ... a special purpose **lessor**..); Little p. 47, line 8 ("**lessor** is a bankruptcy remote entity").

2. What the SPE Owns is Irrelevant to Claim 56's "SPE Owned by the Landlord"

In the interview, the Examiner introduced new portions of the reference, and stated that now the most relevant portions in the Little reference are thought to be page 40, col. 1, lines 1-3 and 8-14, and page 42, col. 2, lines 10-16. The Examiner's new portions of Little do not teach

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[1] The Office Action correctly notes that "owned by" does not require 100% ownership. However, it implies at least controlling ownership.

or suggest that Little meets the "owned by the landlord" limitation of claim 56; instead, these portions expressly **teach away**.

The "equity" discussed at 40:1:1-3 and 40:1:8-14 is an equity investment made by the SPE in the **property** in order to put the SPE "at risk."[2] What the SPE owns has nothing to do with who the SPE is owned by, the limitation stated in claim 56. Instead, Little states several times that the "equity" ownership of the SPE's is provided by the lessee and/or a lender or investor. *E.g.*, Little, p 42, col. 2, lines 22-30; p. 43, col. 1, lines 1-3 and 9-11 (remember, the "lessor" and the "SPE" are the same entity). The newly-relied-on portions of Little only confirm that Little's SPE is owned by the lender/investor and/or the **lessee/tenant. Neither the lender/investor nor the lessee/tenant is the "landlord."**

Little expressly **teaches away** from the landlord owning the SPE: the SPE/lessor/landlord cannot meet the "at risk" requirement[2] of EITF 90-15 (Little p. 39, col. 2, line 14 to p. 40, col. 1, line 10) by owning itself – a hypothetical circular ownership structure is simply absurd.

3. In Little's Embodiments Involving a Separate Landlord, there is No SPE

The second excerpt mentioned in the interview (42:2:10-15) states that some of Little's embodiments do not have an SPE at all:

> ... Many synthetic leases are being structured with third party lessor or entities such as a leasing affiliate of a bank acting as the lessor, in lieu of a special purpose entity.

"In lieu of" means "instead of" or "without."[3] This portion of Little does not discuss a "special purpose entity being **a legal entity owned by a landlord**." Rather, it discusses the absence of any special purpose entity at all.[4]

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[2] "At risk" means that the SPE is exposed to market forces and risks that gives it some real economic substance. *See also* Steve Bergsman, Down, But Not Out: Synthetic Leases, Area Development Magazine (Sept. 1, 2002), http://www.wpcarey.com/about/pressdetail.aspx?id=000034969003 ("... the SPE had to make and maintain an equity investment **in the property** of at least 3 percent of purchase price.")

[3] Webster's Ninth New Collegiate Dictionary: **lieu, in lieu**: INSTEAD – **in lieu of** : in the place of : instead of.

4. The Office Action Misinterprets a Number of Portions of Little – The Portions Show that Little Does Not Meet Claim 56

The remaining portions of the reference designated in the Action (Little p. 42, col. 1, line 24 to p. 42, col. 2, line 9), now conceded to be less relevant, state exactly opposite the interpretation given them in the Action. These excerpts reiterate several times that the lessor and the SPE is the **identical** entity of the landlord, not a "special purpose entity being a legal entity **owned by a landlord.**"

Applicant respectfully requests that the Examiner either make a showing that Little, when read carefully and precisely, teaches or suggests the precise limitation recited in claim 56, or else allow the claim. It is a violation of PTO rules to fail to do one of the two.

B. The Claim Language "the debt being non-recourse against the special purpose entity, the landlord and the asset" Distinguishes the Art

1. Little Shows Only Asset-Secured Loans, the Opposite of a "Debt Being Non-Recourse Against the ... Asset" Recited in Claim 56

Where claim 56 recites that the debt is "non-recourse against ... the asset," Little states several times that the debt in a typical synthetic lease structure is **secured by recourse against the asset**:

> Lenders typically view synthetic leases as credit transactions with the asset providing security for the loan arrangement. (Little p. 36, col. 2, lines 27-30).
>
> Some synthetic lease transactions provide for a separate mortgage [that is, a security pledge of the property] from the lessor to the lender. (Little p. 44, col. 1, line 24-26.)

The Office Action is simply silent on this limitation, as discussed further in § III.B.3.

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[4] It would not be proper to base a new ground of rejection on a new embodiment confabulated by combining Little's two incompatible embodiments. A rejection may not combine different disclosures drawn from different parts of a reference without making a showing that either the reference itself makes the combination, or a formal "motivation to combine" and "reasonable expectation of success" showing. *North American Oil Co. v. Star Brite Distributing, Inc.*, 46 Fed. Appx. 629, 631 (Fed. Cir. 2002) (district "court erred in considering that disparate disclosures in different parts of a multiple volume treatise ... can be combined to find anticipation"); *Ex parte Beuther*, 71 USPQ2d 1313, 1316 (Bd. Apt. App. & Interf. 2003) ("It is well-settled however, that anticipation is not established if ... it is necessary to pick, choose, and combine various portions of the disclosure not directly related to each other by the teachings of the reference").

In the telephone interview, the Examiner indicated a new portion of the Little reference, p. 42, col. 2, lines 26-30. This reflects a misunderstanding of the term of art "loan on a non-recourse basis." "Non-recourse loan" and "non-recourse" debt are terms of art with a somewhat misleading connotation: the "non-recourse" aspect applies only to the person of the borrower, **not the asset**. When the terms "non-recourse debt" and "non-recourse loan" are used without further qualification, they are well-established in the art to imply a security interest, or **recourse** claim, **against the asset** financed by the loan.

Exhibit A to this Request for Reconsideration shows a number of authoritative sources that demonstrate the use of the term in the art. (a) Dictionary definitions expressly note the security interest in the asset financed by the loan. (b) This is the definition used by regulatory agencies: the Texas State Banking Department includes the values of such security claims when it evaluates the solvency of banks who have issued "nonrecourse debt." (c) The United States Supreme Court recognizes that "nonrecourse loan" is a term of art that means a loan secured against the asset financed by the loan. *Commissioner v. Tufts*, 461 U.S. 300, 307, 308 n. 5, 311-12 (1983) (using almost the same words as Little, "loan on a nonrecourse basis," to mean a loan "encumbered by," "mortgaged" or "secured by" a pledge of the asset, and contrasting the effect of "nonrecourse obligations" against the different effect for obligations not secured by property).

Once the reference is read fairly[5], it is seen that this limitation of claim 56 distinguishes all of Little's embodiments discussed in the Office Action or the interview, all of which require "recourse against the asset," exactly opposite claim 56. The Office Action indicates no other reference that might meet this claim limitation, and does not discuss any modification, motivation to modify, or reasonable expectation of success that might support an obviousness rejection. Claim 56 is patentable.

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[5] While claims must be given their "broadest reasonable interpretation," in contrast, references are to be read "fairly." *In re Schaub*, 1991 WL 252968 at **2, 1991 U.S. App. Lexis 28164 at *5 (Fed. Cir. Nov. 27, 1991) (non-precedential) (conclusions of anticipation can only be based on "a fair reading of the reference as a whole").

2. Little Could Not Be Modified To Meet Claim 56, and Teaches Away from Claim 56

Little teaches only secured financing arrangements: "the asset [provides] security for the loan arrangement," (Little p. 36, col. 2, lines 27-29), and holders of financing notes "are entitled to a priority payment from the sale of the property." (Little p. 43, col. 1, lines 1-3). Little teaches away from "debt [that is] non-recourse against ... the asset."

Loans that are not secured by recourse against "the special purpose entity, the landlord and the asset" demand much higher interest rates. The advantages of a synthetic lease are not so great that they could support an interest rate many percentage points higher than the rate available for a secured financing.

Because Little teaches away, the Little reference cannot support an obviousness rejection.

3. The Office Action is Too Incomplete to Raise any Rejection

The Office Action makes no comparison of the language "the debt being non-recourse against the special purpose entity, the landlord and the asset" to any reference. Where Applicant's paper of January 2006 asked to have the claim language addressed, the Office Action expressly declines to "answer all material traversed." Action of 4/20/06 at ¶ 3(A)(2)(c) (last line of page 6).

If any rejection is to be raised, Applicant once again asks, what is the Examiner's best comparison of the precise words of claim 56 to a reference?

- Is the Examiner's position that "the debt being non-recourse against the special purpose entity, the landlord and the asset" is explicit in one of the references? If so, where?
- Is the Examiner's position that "the debt being non-recourse against the special purpose entity, the landlord and the asset" is inherent? If so, what is the "basis in fact and/or technical reasoning to reasonably the support the determination that the allegedly inherent characteristic necessarily flows from the teachings of the applied prior art," as required by MPEP § 2112(IV) (emphasis in MPEP)?
- Is the Examiner's view that it would be obvious to modify the references to meet the "the debt being non-recourse against the special purpose entity, the landlord and the asset" claim limitation? If so, what is the motivation to modify the prior art to meet this specific claim limitation, and what would be the reasonable expectation of success? MPEP §§ 2143.01, 2143.02. How would that modification avoid "rendering the prior art unsatisfactory for its intended purpose" and "changing the principle of operation of the reference?" MPEP § 2143.01. Is the Examiner relying on anything other than some

vague feeling that "the [specific] claimed invention is within the capabilities of one of ordinary skill?" MPEP § 2143.01.

The Office Action does not indicate which of these three legal bases is thought to apply. The appropriate response is entirely different, depending on which legal approach the Examiner believes to be applicable. When an Office Action is simply silent on a claim limitation, an applicant cannot possibly guess at or respond to all of the possible positions that an examiner might hold. Especially in a case like this one, where the Examiner's reading of a reference is simply incorrect, when an Office Action is silent, an applicant cannot possibly guess where the Examiner's error is, so that the applicant can teach the examiner what the examiner needs to know to move past the error.

The courts and the Board have noted that Applicants cannot, and therefore are not obligated to, respond to positions that the Examiner has not raised,[6] and that no rejection exists until the Examiner complies with PTO rules for setting forth a written rejection.[7] It is far better – and required under the rules – for an examiner to write **something** and be wrong, than to keep a position hidden. Until the Examiner's position on this claim limitation is stated on paper, no rejection exists.

The Office Action makes no showing that a "debt [that is] non-recourse against the special purpose entity, the landlord and the asset" is taught in Little, or would be desirable. The Action makes no showing that unsecured financing would have any conceivable, let alone reasonable, expectation of success.

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[6] 37 C.F.R. §§ 1.104, 1.113 (actions must be "complete" and "clearly state" reasons); 37 C.F.R. § 1.111(b) (response must "point[ ] out the supposed errors in the examiner's action and must reply to every ground of objection and rejection in the prior Office action" – applicants are under no duty to guess at positions not stated in the written action); MPEP § 2142 (burden rests with examiner to "show" unpatentability); *Wiechert*, 370 F.2d at 963-64, 152 USPQ at 251-52, *citing* 37 C.F.R. § 1.106, now § 1.104(c)(2); *see also In re Oetiker*, 977 F.2d 1443, 1449 (Fed. Cir. 1992) (Plager, J., concurring) ("The examiner cannot sit mum, leaving the applicant to shoot arrows into the dark hoping to somehow hit a secret objection harbored by the examiner.").

[7] *Vitarelli v. Seaton*, 359 U.S. 535, 545 (1959) (when an agency acts contrary to its own written regulations. the resulting action is "illegal and of no effect," emphasis added); *Certain Former CSA Employees v. Dept. of Health and Human Services*, 762 F.2d 978, 984 (Fed. Cir. 1985) (action in violation of agency's own regulation is "illegal and of no effect," emphasis added).

The Office Action is too incomplete to raise any rejection whatsoever of claim 56. An interview is too late, procedurally, to cure this omission. No rejection exists.

IV. Dependent claims

Dependent claims 58 and 59 are patentable with the independent claim 56 discussed above. In addition, the dependent claims recite additional features that further distinguish the art.

These claims are likewise not rejected, because they have not been examined. For example, note the silence of the Office Action on paragraph (a) of claim 58. (Action of 4/20/2006, page 3).

V. Applicant Requests that the Examiner Treat the Claims Precisely

Applicant suggest that the reason there has been so much "rework" on this application is that neither Examiner Konoff nor Examiner Chencinski have focused carefully on the claims. Both have simply broad-brushed them, without addressing them on a limitation-by-limitation basis.

In the previous paper, Applicant requested a showing of relevance for the four portions of Little cited in the 10/20/2005 paper. The 4/20/2006 paper responds that two of these four portions of Little are cited only "to fix the definition of a synthetic lease as disclosed by Little," conceding that they are not relevant to the claims. The Little disclosure is not being examined. If the portions cited are not relevant to the claims, then they are not relevant at all.

37 C.F.R. § 1.104(c)(2) reads as follows (underline added):

§ 1.104 Nature of examination.

(c) *Rejection of claims.*

(2) In rejecting claims for want of novelty or for obviousness, the examiner must cite the best references at his or her command. When a reference is complex or shows or describes inventions other than that claimed by the applicant, the particular part relied on must be designated as nearly as practicable. The pertinence of each reference, if not apparent, must be clearly explained and each rejected claim specified.

Note that Rule 104 requires **two separate things**, a "designation" of portions relied on, **and** an **explanation of "pertinence."** Typically, to meet the second requirement, Office Actions

proceed clause-by-clause of a claim (rather than broad-brushing large chunks of a claim all at once), and **give the names** of particular elements of the reference in parentheses, so that the correspondence between the reference and the claim will be clear. Applicant respectfully requests that this practice – or similar – be observed in any future Office Action.

Applicant **again** requests the following.

Applicant requests a specific designation of any portion of any reference that is thought to teach "the special purpose entity being a legal entity **owned by a landlord** of the real estate" and a "clear explanation of pertinence." If a lessee is thought to be equivalent to a landlord, Applicant requests an explanation.

Applicant requests a specific designation of any portion of any reference that is thought to teach "the debt being **non-recourse against** the special purpose entity, the landlord and **the asset**," and a "clear explanation of pertinence." If the Examiner disagrees with the dictionary and Supreme Court definition of "non-recourse debt" set forth in Exhibit A, Applicant requests an explanation and legal basis.

If any one of these showings cannot be made, Applicant respectfully requests allowance.

As one example, any reasonable applicant would have to assume that an examiner was aware of the definition of the term of art "nonrecourse loan." It is only when the Examiner finally came forward with a particular explanation of why this limitation was met that any applicant could conceivably have responded. Applicants cannot guess at examiners' positions, they must be set on paper if there is to be any progress.

VI. Final Rejection is Premature

If any rejection is maintained, then it can only be on the basis of a newly-disclosed position, a "new ground of rejection." Prosecution should be reopened.

It was agreed in the interview of December 19, 2005 that there would be no "[deviation] from the currently applicable MPEP and current Office policies" regarding final rejection. (Action of 4/20/2006, page 8). "Office policy" on final rejection is stated in MPEP § 706.07(a), which reads as follows, in pertinent part:

706.07(a) Final Rejection, When Proper on Second Action

> [¶ 2] Under present practice, second or any subsequent actions on the merits shall be final, except where the examiner introduces a new ground of rejection that is neither necessitated by applicant's amendment of the claims... Furthermore, a second or any subsequent action on the merits ... will not be made final if it includes a rejection, on newly cited art ... of any claim not amended by applicant...

MPEP § 706.07(a) imposes two separate requirements before prosecution may be closed: (a) all requirements of "present practice" must be timely completed, and (b) no new ground of rejection may be raised, unless necessitated by amendment.

Both prongs indicate that final rejection is premature.

A. The Action of 4/20/2006 Fails to Comply with "Present Practice" and Thus Final Rejection is Premature

First, as noted in § III.B.3, the Action is too incomplete to comply with "present practice." MPEP § 706.07 and 706.07(a) make clear that "you can do it right the first time, or you can do it over." The application has not yet been done right. Final rejection is premature.

B. The Action of 4/20/2006 Relies on "New Portions" of the References and Thereby Raises "New Grounds" of Rejection of Unamended Claims

Second, the Action raises a "new ground" by relying on new portions of the Little reference. The term "new ground of rejection" is defined as any "position or rationale new to the proceedings" (including new evidence, citation to a new portion of existing evidence, a new inference drawn from an existing reference, a new legal theory, or a new application of law to facts).[8] For example, designating a new "particular part relied on" or a "different portion" of a

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[8] *In re DeBlauwe*, 736 F.2d 699, 706 n. 9, 222 USPQ 191, 197 n.9 (Fed. Cir. 1984) ("Where the board makes a decision advancing a position or rationale new to the proceedings, an applicant must be afforded an opportunity to respond to that position or rationale" to the full extent permitted by the relevant rule), *citing* 37 C.F.R. § 1.196(b); *In re Kronig*, 539 F.2d 1300, 1302-03, 190 USPQ 425, 426 (CCPA 1976), *citing In re Eynde*, 480 F.2d 1364, 1370-71, 178 USPQ 470, 474 (CCPA 1973) ("We do agree with appellants that where the board advances a position or rationale new to the proceedings... the appellant must be afforded an opportunity to respond to that position or rationale [to the full extent permitted by the relevant rule]."); *Ex parte Teeple*, Appeal No. 97-0943, 1997 WL 1883925 at *2-3, http://www.uspto.gov/web/offices/dcom/bpai/decisions/fd970943.pdf at 7, 9 (BPAI Feb. 17, 1998) (new explanation for § 112 ¶ 2 rejection of same claim language is "new ground" of rejection).

reference is a "new ground of rejection."[9] *In re Wiechert*, 370 F.2d 927, 933, 152 USPQ 247, 251-52 (CCPA 1967) ("An applicant's attention and response are naturally focused on that portion of the reference which is specifically pointed out by the examiner. ... [W]hen a rejection is factually based on an entirely different portion of an existing reference the appellant should be afforded an opportunity" to exercise all rights granted under the rule applicable at the particular procedural juncture).[10] A new supporting position or rationale is a "new ground," even if it is simply offered to buttress a previous analysis or inference.[11] Any notion that a "new ground" requires a new reference has been expressly rejected by the Federal Circuit, the CCPA, and by the Board, and is inconsistent with the plain language of MPEP § 796.07(a), which treats "newly cited art" and "new ground" as separate concepts.[12]

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[9] With certain exceptions, which are neither relied on in the Decision nor relevant here.

[10] *See also In re Echerd*, 471 F.2d 632, 635, 176 USPQ 321, 323 (CCPA 1973) ("We find the new reliance [to be] a new ground of rejection. New portions of the reference are relied upon to support an entirely new theory... appellants should have been accorded an opportunity to present rebuttal evidence as to the new assumptions of inherent characteristics made by the board"), *reaffirmed by Kronig*, 539 F.2d at 1303, 190 USPQ at 427. The PTO's more-recent decisions regularly reinforce this principle. *E.g.*, *Ex parte Kelcher*, Appeal No. 1999-1899, 2002 WL 63644 at *3-4, http://www.uspto.gov/web/offices/dcom/ bpai/decisions/fd991899.pdf at 9-10 (BPAI Feb. 28 2001) (new reliance on an arrow in a figure of an existing reference is a "new ground of rejection"); *Ex parte D'Andrade*, Appeal No. 1999-1235, 1999 WL 33224326 at *3, .../fd991235.pdf at 7, 10 (BPAI Sep. 30, 1999) (shift from examiner's reliance on tension spring 59 to Board's reliance on tension spring 61 in the same single reference is a "new ground of rejection"); *In re Intine*, 162 USPQ 192, 192 (Comm'r of Patents 1969) (a shift from references A and B to references A, B and C, where C had previously been relied upon, prevented final rejection).

[11] *In re Kumar*, 418 F.3d 1361, 1367, 76 USPQ2d 1048, 1051 (Fed. Cir. 2005) (a new calculation applied to a reference is not "simply an additional explanation of the Board's decision," it is a new ground of rejection); *In re Waymouth*, 486 F.2d 1058, 1061, 179 USPQ 627, 629 (CCPA 1973) ("merely advanc[ing] 'an additional reason' for affirming the examiner" is a "new rejection"), *modified* 489 F.2d 1297, 180 USPQ 453 (CCPA 1974), *reaffirmed by Kronig*, 539 F.2d at 1303, 190 USPQ at 427; *Moore*, 444 F.2d at 574-75, 170 USPQ at 263, *reaffirmed by Kronig*, 539 F.2d at 1303, 190 USPQ at 427; *Ex parte Hanlon*, Appeal No. 98-2033, 1998 WL 1748535 at *2-3, .../fd982033.pdf (Board's different analysis of the same portion of the same reference is a "new ground of rejection").

[12] *In re Kumar*, 418 F.3d 1361, 1367, 76 USPQ2d 1048, 1051 (Fed. Cir. 2005); *In re Ahlert*, 424 F.2d 1088, 1098, 165 USPQ 418, 421 (CCPA 1970) (new facts based on an existing reference are a new ground of rejection, even if cast as "official notice"); *In re Bulina*, 362 F.2d 555, 558-59, 150 USPQ 110, 113 (CCPA 1966), *reaffirmed by Kronig*, 539 F.2d at 1303, 190 USPQ at 427; *In re Intine*, 162 USPQ 192, 192 (Comm'r of Patents 1969) (a shift from references A and B to references A, B and C, where C had previously been relied upon but not applied, prevented final rejection).

There is no dispute that the 4/20/2006 Supplementary Action is "factually based on entirely different portions" of the Little reference, and uses these new portions to explain claim limitations that were totally omitted from the 10/20/2005 Action. These "new portions" include Little p. 36, col. 1, lines 8-13 and 21-26; page 37, col. 1, lines 14-23; page 37, col. 2, lines 1-15. Further, in the interview, the Examiner relied on further "new portions," including page 40, col. 1, lines 1-3 and 8-14, and page 42, col. 1, lines 10-16. The claim limitations that are new are the two discussed in §§ III.A and III.B.1 above. It will be noted that none of the arguments presented in §§ III.A and III.B.1 could have been made in response to the 10/20/2005 Action, because the 10/20/2005 Action was simply silent – these are "new grounds."

Under the definition of "new ground of rejection" as specified in "currently applicable MPEP and current Office policies," final rejection is premature.

C. Procedurally, No Rejection Exists – a Non-Existent Rejection Cannot Mature Into a Final Rejection

37 C.F.R. § 1.104(c)(2) sets the following minima if any rejection is to exist:

§ 1.104 Nature of examination.

(c) *Rejection of claims.*

> (2) In rejecting claims for want of novelty or for obviousness, the examiner must cite the best references at his or her command. When a reference is complex or shows or describes inventions other than that claimed by the applicant, the particular part relied on must be designated as nearly as practicable. The pertinence of each reference, if not apparent, must be clearly explained and each rejected claim specified.

The Examiner himself conceded that even taken together, the 10/20/2005 and 4/20/2006 papers are incomplete. For example, in the first part of the telephone interview, July 12, 2006, the Examiner was unable to identify anything in the Office Action that indicates what portion of any reference was thought pertinent to these two claim limitations. Only in the **second** day of the interview was the Examiner able to indicate portions of the references thought pertinent to these two claim limitations. While Applicant appreciates the disclosure of the Examiner's view, the Examiner himself admitted that he had to spend an hour or two identifying any relationship between the reference and claim 56, and that the relationship could not be discerned in the Office

Action itself. This concedes that the Office Action was deficient: if the examiner who wrote the Office Action cannot discern the "portions relied on" and the "pertinence" to particular claim limitations, how can an applicant? Applicants are not required to read examiners' minds. Rather, examiners are required to articulate the correspondence between references and claims on paper.[13]

Finality of the Supplementary Action of 4/20/2006 is premature. Prosecution should be reopened.

D. Applicants Are Entitled to a Written Examination and Statement of Reasons

In the interview of July 12-13 2006, the Examiner made a statement that this attorney hears often from many examiners. The exact words are not in this attorney's notes, but essentially the idea was "I've allowed most of the claims, why do you care about the rest?"

The Fifth Amendment to the United States Constitution provides that a federal agency, such as the PTO, may not deprive any person of property "without due process of law." The Federal Circuit has several times held that the Constitution's "due process" clause applies to patent applicants. The "due process" required by law includes the showings required by 37 C.F.R. § 1.104(c)(2) and the MPEP. It is unconstitutional for an examiner to withhold claims by an Office Action that is silent on a required showing. An examiner is permitted to be wrong, so long as a clear issue is developed for appeal. MPEP § 706.07. However, it is unconstitutional for an examiner to be silent, to deprive an applicant of claims without a "due process"

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[13] 37 C.F.R. § 1.104(c)(2); *Ex parte Berg*, 2002 WL 32346092 at *2 (BPAI Feb. 6, 2003) ("the examiner must present a full and reasoned explanation of the rejection in the statement of the rejection, specifically identifying underlying facts and any supporting evidence, in order for appellants to have a meaningful opportunity to respond"); *Ex parte Schricker*, 56 USPQ2d 1723, 1725 (BPAI 2000) (Board refuses to recognize the existence of a rejection that is not set out on paper: " The examiner has left applicant and the board to guess as to the basis of the rejection and after having us guess would have us figure out (i.e., further guess) what part of which [reference] supports the rejection. We are not good at guessing; hence, we decline to guess."). No burden shifts to the applicant until the Examiner has addressed every element of a *prima facie* case of unpatentability. *E.g.*, *In re Glaug*, 283 F.3d 1335, 1338, 62 USPQ2d 1151, 1152 (Fed. Cir. 2003) ("During patent examination the PTO bears the initial burden of presenting a *prima facie* case of unpatentability. If the PTO fails to meet this burden, then the applicant is entitled to the patent."); MPEP § 2142 (for obviousness, three *prima facie* showings must be made by the examiner before any burden shifts to an applicant)

articulation of grounds. *Board of Regents of State Colleges v. Roth*, 408 U.S. 564, 576 n.15 (U.S. Sup. Ct. 1972) (an applicant has a constitutional right to an explanation for denial of an application).

VII. Conclusion

In view of the amendments and remarks, Applicant respectfully submits that the claims are in condition for allowance. Applicant requests that the application be passed to issue in due course. The Examiner is urged to telephone Applicant's undersigned counsel at the number noted below if it will advance the prosecution of this application, or with any suggestion to resolve any condition that would impede allowance. In the event that any extension of time is required, Applicant petitions for that extension of time required to make this response timely. Kindly charge any additional fee, or credit any surplus, to Deposit Account No. 23-2405, Order No. 114595-02.

Respectfully submitted,
WILLKIE FARR & GALLAGHER LLP

Dated: July 20, 2006

By: _____
David E. Boundy
Registration No. 36,461

WILLKIE FARR & GALLAGHER LLP
787 Seventh Ave.
New York, New York 10019
(212) 728-8000
(212) 728-8111 Fax